

Message Text

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ACTION XMB-07

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 2837

INFO AMEMBASSY MOSCOW

AMCONSUL HONG KONG

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MOSCOW: PASS EXIM BANK HENRY KEARNS

E. O. 11652: N/ A

TAGS: EFIN JA

SUBJ: EXIMBANK COOPERATIVE FINANCE FACILITY (CFF) IN JAPAN

SUMMARY: MISUNDERSTANDING HAS ARISEN REGARDING CFF LIMITS FOR JAPAN. MOF INFORMED EMBASSY THAT EXIMBANK PRESIDENT KEARNS' UNDERSTANDING OF \$10 MIL LIMIT PER BANK IS INCORRECT. MOF SAYS IT NEVER INTENDED TO INCREASE AGGREGATE LIMIT BEYOND \$10 MIL TOTAL NOW IN FORCE. EMBASSY DISCUSSIONS WITH MOF OFFICIALS FOLLOW.

1. EMB ADVISED BY MINISTRY OF FINANCE (MOF), MR MUYAYAMA, DIRECTOR, FOREIGNKMQUPTSL DIVISION, INTL FINANCE BUREAU, WHO PRESENT DURING KEARNS- MATSUKAWA TALK ON WED, MAR 28, THAT HOSOMI AGREED TO \$10 MIL LIMIT TOTAL FOR ALL RPT ALL PARTICIPATING CFF BANKS. EMB ADVISED MOF THAT KEARNS TOLD JAPANESE BANKERS, AND CLEARLY UNDERSTOOD THAT \$10 MIL LIMIT APPLIES TO EACH RPT EACH PARTICIPATING BANK. MURAYAMA SAID MOF BELIEVES MUST BE MISUNDERSTANDING OF DECISION GIVEN BY HOSOMI TO KEARNS EVENING MAR 23. JAPANESE BANKS CONTACTED DURING KEARNS' VISIT HAVE DISCUSSED WITH MOF, AND WERE ADVISED OF ABOVE MOF POSITION.

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2. EMBASSY RAISED POINT WITH MOF THAT CFF TOTALED \$15 MILLION DURING AT LEAST PART OF 1972 (\$5 MILLION EACH TO FUJI BANK, BANK OF TOKYO, AND INDUSTRIAL BANK OF JAPAN). THUS, \$10 MILLION LIMIT APPARENTLY REPRESENTS DECREASE OVER 1972 PREVIOUS LIMITS. IN RESPONSE, MOF ADVISED ONLY ONE MONTH OVERLAP OF INDUSTRIAL BANK WITH OTHER TWO, RESULTING FROM 6 MONTH EXTENSION GRANTED BY MOF TO INDUSTRIAL BANK. BASIC MOF PRINCIPLE REMAINED \$10 MILLION 1972, AND NOW WOULD CONTINUE IN 1973.

3. MOF INDICATES IT HAS BEEN CONTACTED BY AT LEAST FIFTEEN BANKS WITH INTEREST IN CFF. MOF ADVISING SMALLER BANKS UNLIKELY THAT PARTICIPATION POSSIBLE IN VIEW OF OVERALL \$10 MILLION LIMIT. MOF INTERPRETS KEARNS' CITING FIVE MAJOR BANKS AS POSSIBLE CFF'S, IN ADDITION EXISTING TWO CFF BANKS, AS INDICATING EXIM PRIMARILY INTERESTED IN LARGER JAPANESE BANKS.

4. RE US BRANCH BANKS - MOF TO PERMIT BRANCHES TO APPLY FOR CFF ON CASE-BY-CASE APPROVAL BASIS. THIS BECAUSE PARENT BANKS HAVE OR COULD HAVE UNLIMITED ACCESS TO EXIM CFF FUNDS. USE BY BRANCHES OF PARENT CFF LINE NOT RPT NOT TO BE INCLUDED IN MOF \$10 MILLION LIMIT. HOWEVER, MOF WILL NOT APPROVE USE OF CFF BY BRANCHES TO FINANCE TRANSACTIONS BETWEEN PARENT AND JAPANESE SUBSIDIARY. ON OTHER HAND, FACILITY MAY BE USED BY NON-RELATED BUYER OF PARENT COMPANY PRODUCT PURCHASED THROUGH SUBSIDIARY.

5. MOF AGREES TO REVIEW CFF USE AFTER \$10 MILLION LIMIT REACHED, WITH VIEW TOWARD EXTENSION IF USED TO FINANCE IMPORTS BY SMALL JAPANESE FIRMS. IN RESPONSE EMBASSY QUESTION, MOF AGREED THAT IN EVENT A CFF BANK USED UP ITS SHARE OF \$10 MILLION OVERALL LIMIT, ADDITIONAL USE COULD BE APPROVED ON CASE-BY-CASE BASIS.

5. IN DISCUSSION RE HOW CFF MIGHT BE MADE ATTRACTIVE DESPITE \$10 MILLION AGGREGATE LIMIT, MOF AGREED CONSIDER NOT REQUIRING ADVANCE ALLOCATIONS TO INDIVIDUAL CFF PARTICIPANTS.
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6. EMBASSY BELIEVES MOF RELUCTANCE TO SUBSTANTIAL EXPANSION CFF IN JAPAN BASED ON 1972 EXPERIENCE, WHERE 80 PERCENT OF ALL CFF LOANS WENT TO ISHIKAWAJIMA HARIMA TO "FINANCE" PURCHASES ALREADY PAID FOR IN CASH. MOF STRONGLY AGAINST FACILITY USED IN THIS MANNER, BUT UNABLE CONTROL IN VIEW OF AUTOMATIC APPROVAL PROCEDURES. THUS, MOF CONTINUES TO VIEW CFF AS TRIAL PROGRAM, OR EXPERIMENT.

7. EMBASSY OFFICIALS TOLD MOF THAT ITS PRESENT POSITION IS SUBSTANTIALLY LESS THAN KEARNS' UNDERSTANDING OF WHAT MOF AND HOSOMI HAD AGREED TO ON MAR 23.
SHOESMITH

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